

# Legislative Audit Division

State of Montana



Report to the Legislature

October 2006

## Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2006

## State Auditor's Office

This report contains seven recommendations relating to:

- ▶ Noncompliance with state laws for the Insure Montana Program.
- ▶ Properly recording retirement contributions to Montana Public Employees' Retirement Administration.
- ▶ Accurately recording genetics program fee revenue.
- ▶ Timely distribution of federal forest reserve funds.
- ▶ Accurately recording financial information on the state's accounting system.

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## FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2007, will be issued by March 31, 2008. The Single Audit Report for the two fiscal years ended June 30, 2005, was issued on March 6, 2006. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator  
Office of Budget and Program Planning  
State Capitol  
Helena MT 59620  
Phone (406) 444-3616

Legislative Audit Division  
Room 160, State Capitol  
PO Box 201705  
Helena MT 59620-1705

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# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
Tori Hunthausen,  
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:  
James Gillett  
Jim Pellegrini

October 2006

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial-compliance audit report on the State Auditor's Office (office) for the two fiscal years ended June 30, 2006. Included in this report are recommendations concerning noncompliance with state laws pertaining to Insure Montana, recording the retirement contribution liability to the Montana Public Employees' Retirement Administration, federal forest reserve funds, and genetics program fee revenue. There are also recommendations related to accounting errors. The office's written response to the audit recommendations is included in the audit report beginning on page B-3.

We thank the State Auditor and his staff for their assistance and cooperation during the audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", written over a horizontal line.

Scott A. Seacat  
Legislative Auditor

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# **Legislative Audit Division**

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**Financial-Compliance Audit**

**For the Two Fiscal Years Ended June 30, 2006**

## **State Auditor's Office**

Members of the audit staff involved in this audit were Laurie Barrett, Geri Hoffman, Laura Norris, and Melissa Soldano.



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## **Elected, Appointed, and Administrative Officials**

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### **State Auditor's Office**

John Morrison, State Auditor

Gordon Higgins, Deputy State Auditor

Lynne Egan, Acting Deputy Securities Commissioner

Vacant, Deputy Insurance Commissioner

John Huth, Central Services Administrator

### **Insure Montana Board Members**

		<u>Term Expires</u>
Gail Briese-Zimmer	Helena	January 2007
Jim Edwards	Helena	June 2006
Cliff Larsen	Missoula	June 2007
Emily Lipp	Helena	Pleasure *
Christian MacKay	Billings	January 2007
Bob Marsenich	Polson	January 2008
Connie Welsh	Helena	January 2006
Kate Wilson	Helena	June 2008

- \* Emily Lipp is to serve at the pleasure of the Governor and fulfills the qualifications for being the Governor's representative on the Board.

For additional information concerning the State Auditor's Office, contact John Morrison at:

State Auditor's Office  
PO Box 4009  
Helena MT 59604-4009  
(406) 444-2040

e-mail: [jmorrison@mt.gov](mailto:jmorrison@mt.gov)



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### State Auditor's Office

This report contains the results of our financial-compliance audit of the State Auditor's Office (office) for the two fiscal years ended June 30, 2006. This report contains seven recommendations directed to the office concerning noncompliance with state laws, and accounting errors.

We issued an unqualified opinion on the office's financial schedules for fiscal year 2004-05, which means the reader may rely on the financial information and supporting data on the state's accounting records. We issued a qualified opinion on the Schedule of Changes in Fund Balances & Property Held in Trust and Schedule of Total Expenditures & Transfers-Out contained in this report for fiscal year 2005-06. The reader should use caution in relying on the information presented in the financial schedules, as well as the supporting data on the state's accounting system. We issued an unqualified opinion on the Schedule of Total Revenues & Transfers-In for fiscal year 2005-06, which means the reader may rely on the financial information and supporting data on the state's accounting records.

The listing below serves as a means of summarizing the recommendations contained in the report, the office's response thereto, and a reference to the supporting comments.

#### Recommendation #1

We recommend the office allow only eligible small employers to participate in the Insure Montana Program, as required by state law..... 6

Office Response: Concur. See page B-3.

#### Recommendation #2

We recommend the office pay compensation to the Insure Montana Program board members, as required by state law..... 7

Office Response: Concur. See page B-3.

## Report Summary

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### Recommendation #3

We recommend the office record the liability for retirement contributions to the Montana Public Employees' Retirement Administration, as required by state law. .... 8

Office Response: Concur. See page B-4.

### Recommendation #4

We recommend the office comply with state law and record the genetics program fee in the State Special Revenue Fund. .... 8

Office Response: Concur. See page B-4.

### Recommendation #5

We recommend the office comply with state law pertaining to the distribution and investment of federal forest reserve funds. .... 9

Office Response: Concur. See page B-4.

### Recommendation #6

We recommend the office record examination revenues and Premium Assistance Plan expenditures in accordance with state law and policy. .... 10

Office Response: Concur. See page B-5.

### Recommendation #7

We recommend the office properly record Agency Fund transactions in accordance with state law and policy. .... 11

Office Response: Concur. See page B-5.

# Introduction

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## General

We performed the financial-compliance audit of the State Auditor's Office (office) for the two fiscal years ended June 30, 2006. The objectives of the audit were to:

1. Determine if the office complied with applicable laws and regulations.
2. Obtain an understanding of the office's control systems, and if appropriate, make recommendations for improvement in the internal and management controls of the office.
3. Determine if the office's financial schedules fairly present the results of operations for the two fiscal years ended June 30, 2006.
4. Determine the implementation status of prior audit recommendations.

This report contains seven recommendations to the office. Other areas of concern deemed not to have a significant impact on the successful operations of the programs within the office are not specifically included in the report, but have been discussed with management. In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations.

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## Office Background and Organization

The office was established by Article VI, Section 1 of the Montana Constitution. The State Auditor is the ex-officio Commissioner of Insurance and the ex-officio Commissioner of Securities. The State Auditor also serves as a member of the State Land Board and the Crop Hail Insurance Board. The State Auditor's Office licenses and regulates insurance companies and agents within the state, and regulates and registers securities dealers. Total full-time equivalent (FTE) positions of the office as of June 2006 are 79.5, which includes 11.5 exempt positions.

The office is organized as follows:

1. The **Centralized Services Division** is responsible for the administrative, budgeting, personnel, and accounting

## Introduction

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functions of the office. The division also provides support for the State Auditor as he fulfills his duties on the State Land Board and the Crop Hail Insurance Board (10.0 FTE).

2. The **Insurance Division** regulates the insurance industry in Montana. Its duties include resolving insurance consumer inquiries and complaints about agents, coverage, and companies; licensing and reviewing the rates and financial condition of insurance companies; collecting the insurance premium tax; approving forms used by insurance companies; licensing, testing, and administering a continuing education program for insurance agents; and investigating insurance code and rule violations (53.5 FTE). The office administers the **Insure Montana Program**, a two-part program that is designed to assist small businesses with the cost of health insurance, whether they have previously provided health insurance or not. The program is responsible for administering monthly assistance payments or tax credits to qualifying businesses (3.0 FTE).
3. The **Securities Division** is responsible for the administration and enforcement of the Securities Act of Montana. The division is responsible for the registration of securities issuers, salespeople, investment advisers, broker-dealers, and investment adviser representatives. It also investigates instances of unregistered or fraudulent securities transactions (13.0 FTE).

The office is responsible for distributing a portion of insurance premium taxes to the Montana Public Employees' Retirement Administration (Local Assistance to Counties), and to fire and police departments in qualifying Montana cities and towns. The office also distributes federal forest reserve funds to Montana counties.

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### Prior Audit Recommendations

The prior financial-compliance audit of the office for the two fiscal years ended June 30, 2004, contained six recommendations. During the current audit, we determined the office implemented four of the recommendations, partially implemented one recommendation, and did not implement one recommendation. The recommendation partially implemented deals with distributing the federal forest reserve funds to the counties within 30 days of receiving the funds from the federal government. This is discussed on page 8. The recommendation not implemented deals with performing additional supervisory review of infrequent and year-end accounting

transactions. Issues concerning supervisory review are discussed on pages 9 and 11. This recommendation still applies, and the office should work to implement the recommendation.



# Finding and Recommendations

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## **Noncompliance with State Law**

During our audit, we found instances where the office was not complying with state laws. We tested the office's compliance with 67 laws related to the Insurance Division, Security Division, the Insure Montana Program, and other administrative laws. Below are compliance issues identified in this audit.

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## **Insure Montana - Eligibility Determination**

### **The office awarded assistance to businesses that were not eligible to participate in the Insure Montana Program.**

The office administers the Insure Montana Program, which is a new program established by the 2005 Legislature. This program provides tax credits to small businesses that currently have health insurance, and provides financial assistance to pay the employers' and employees' portion of the monthly insurance premiums for those businesses with no prior health insurance. The financial assistance portion is broken out between employer incentive payments and employee premium assistance payments.

To be eligible for the program, businesses must be considered a small employer. Section 33-22-2002(4)(a), MCA, defines an eligible small employer as "... an employer who is sponsoring or will sponsor a group health plan and who employed at least two but not more than nine employees during the preceding calendar year, and who employs at least two but not more than nine employees on the first day of the plan year." An eligible employee is defined in section 33-22-1803(12)(a), MCA, as "... any employee who works on a full-time basis with a normal workweek of 30 hours or more, except that at the sole discretion of the employer, the term may include an employee who works on a full-time basis with a normal workweek of between 20 and 40 hours as long as this eligibility criteria is applied uniformly among all of the employer's employees."

During the audit, we selected 30 businesses deemed eligible by the office to receive a tax credit or premium assistance and premium incentive payments. We reviewed the eligibility of 20 applicants for

## Finding and Recommendations

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the premium assistance and premium incentive payments, and 10 applicants for tax credits. Of the 30 applicants reviewed, we found one business deemed eligible for the tax credit had over nine employees, and two businesses eligible for the premium assistance and incentive payments had over nine employees. The amount of tax credit awarded to the ineligible business totaled \$3,000, and the amount of assistance already paid to the two ineligible businesses totaled \$8,721.

The Insure Montana staff provided a report showing the number of businesses deemed eligible in fiscal year 2005-06. They identified 36 more businesses with over nine employees, which are not eligible to participate in the program based on the definition in section 33-22-2002(4)(a), MCA. The amount of tax credit awarded to these businesses totaled \$171,717, and the amount paid out for premium assistance and premium incentive payments totaled \$8,799. As of fiscal year-end 2005-06, there were 189 businesses receiving premium assistance and premium incentive payments, and 617 businesses eligible for the tax credit. As of fiscal year-end 2005-06, there were 137 businesses on the waiting list for the assistance payments, and 19 on the waiting list for the tax credits.

The office used the number of eligible employees to determine the businesses' eligibility to participate in the program. However, state law defines an eligible small employer as an employer who employs between two and nine employees, and the "eligible" identifier for an employee is not used in the definition. Therefore, we believe those applicants who have over nine employees are ineligible to participate in the Insure Montana Program.

### **Recommendation #1**

**We recommend the office allow only eligible small employers to participate in the Insure Montana Program, as required by state law.**



## Finding and Recommendations

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### **Insure Montana - Payments to Board Members**

**The office did not pay the \$50 compensation to all the Insure Montana board members.**

According to sections 33-22-2003 and 2-15-124(7), MCA, the Insure Montana board members should be compensated and receive reimbursement for travel expenses. During fiscal year 2005-06, two Insure Montana board members were not paid \$50 compensation for each day in which they were actually and necessarily engaged in the performance of board duties. The Insure Montana program owes a total of \$550 to the two members.

According to office personnel, the office forgot to pay the two board members since they live in Helena and did not submit a compensation reimbursement request.

#### **Recommendation #2**

**We recommend the office pay compensation to the Insure Montana Program board members, as required by state law.**

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### **Transfer of Funds to Montana Public Employees' Retirement Administration**

**The office did not record the \$15.7 million liability for retirement contributions to the Montana Public Employees' Retirement Administration during fiscal year 2005-06.**

According to sections 19-9-702 and 19-13-604, MCA, the state must make a contribution from the General Fund to the Municipal Police Officers' Retirement System (MPORS) and the Firefighter's Unified Retirement System (FURS). A liability was not recorded for the retirement contributions to the MPORS and the FURS, \$8,181,861 and \$7,532,590, respectively, for fiscal year 2005-06. This error caused the ending fund balance in the state's General Fund to be overstated by \$15,714,451. Office personnel caught this error after the state's accounting system closed for fiscal year 2005-06. The office has taken the appropriate steps to correct this, and plan to make the correcting entry in September of fiscal year 2006-07.

## Finding and Recommendations

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### **Recommendation #3**

**We recommend the office record the liability for retirement contributions to the Montana Public Employees' Retirement Administration, as required by state law.**

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#### **Genetics Program Fee**

**The office did not move the genetics program fee revenue from the General Fund to the State Special Revenue Fund, as required by state law.**

During the 2005 Legislative Session, section 33-2-712, MCA, was amended to move the genetics program fee collected by the office to a State Special Revenue Fund from the General Fund. The office did not transfer \$16,436 in fiscal year 2005-06 from the General Fund to the State Special Revenue Fund. Office personnel indicated they forgot to make this transfer before year-end.

### **Recommendation #4**

**We recommend the office comply with state law and record the genetics program fee in the State Special Revenue Fund.**

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#### **Federal Forest Reserve Funds**

**The office did not distribute all federal forest reserve funds timely in accordance with state law.**

The office is the pass-through agency for the Federal Forest Reserve Program payments to local governments. The objective of this program is to share receipts from the national forests to the states in which these forests are situated. During fiscal year 2005-06, the office received the funds from the federal government on December 22, 2005. The office distributed the funds to all the counties on December 23, 2005, except Sanders County, which did not receive its \$1.5 million until 33 days after the funding was received by the office. State law requires the funds be distributed to the counties 30 days after receiving full payment from the federal government.

## Finding and Recommendations

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According to office personnel, they did not have enough appropriation authority to process the transaction for Sanders County, and the payment did not process. The office did not realize the funds did not leave the treasury until they were contacted by Sanders County.

Since the federal forest reserve funds were not distributed to Sanders County on December 23, 2005, the money should have been invested and all investment earnings given to the county, as required by state law. The office owed Sanders County \$3,165 in interest as of August 24, 2006.

During the prior audit report, we found the office did not distribute the federal forest reserve funds to counties within the 30-day state law requirement. Since then, the office has improved its procedures to ensure the payments are made within 30 days.

### **Recommendation #5**

**We recommend the office comply with state law pertaining to the distribution and investment of federal forest reserve funds.**

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### **Accounting Errors**

State law requires the office to input all necessary transactions before the end of the fiscal year to present the receipt, use, and disposition of all money and property for which it is accountable, in accordance with generally accepted accounting principles. The Department of Administration establishes state accounting policy to implement this law. During the audit we noted the following instances where the office did not record financial activity in accordance with state law and policy.

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### **Expenditure and Revenue Classification**

**The office made errors when recording Premium Assistance Plan expenditures and examination revenues activity on the state's accounting system.**

In fiscal year 2004-05, the office recorded expenditures for Premium Assistance Plan payments under the Montana Comprehensive Health Association Program as grants – from federal sources. This program

## Finding and Recommendations

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provides insurance to those who are high-risk individuals, and those individuals who have left work and are in need of health insurance. No federal funds were used to support this program, and therefore, the expenditures were recorded incorrectly for fiscal year 2004-05. In fiscal year 2005-06, the office recorded the expenditures as grants – from state sources. However, these are not grants and the expenditures should have been recorded as a benefit & claim – to individuals. Therefore, in fiscal years 2004-05 and 2005-06, grants are overstated by \$662,732 and \$573,215, respectively. Benefits & claims are understated by the same amounts in the Insurance Program.

The Security and Insurance Divisions receive payments from companies registering for a license in Montana. In order to ensure domestic companies are complying with applicable laws, the office contracts with examiners to perform examinations of these companies. The Security and Insurance Divisions receive reimbursement from companies for the cost of performing the examination. Currently, this revenue is coded as licenses and permits when it should be coded as charges for services. Licenses and permits are revenues collected from businesses and individuals for various rights or privileges granted by the state. Charges for services are revenues from services provided by the state to other state agencies, businesses, individuals, and governments. License and permits revenue is overstated by \$126,411 in fiscal year 2005-06, and \$165,487 in fiscal year 2004-05. Charges for services revenue is understated by the same amounts in each year. This issue was in our last audit report, and the office concurred with our recommendation. However, the office has not changed its procedures since then and did not notice the coding problem.

### **Recommendation #6**

**We recommend the office record examination revenues and Premium Assistance Plan expenditures in accordance with state law and policy.**

## Finding and Recommendations

### Property Held in Trust

**The property held in trust beginning and ending balances, and the additions and reductions for both fiscal years are inaccurate.**

The office requires insurance companies transacting business in Montana to have on deposit with the office securities sufficient to protect policy holders in the event of company insolvency.

- ▶ In fiscal year 2004-05, the office recorded property held in trust in the Agency Fund as a net amount instead of recording the actual additions and reductions during the year. The office should have recorded an addition to property held in trust of \$536,192 and a reduction of \$107,479. In fiscal year 2005-06, the office tried to record property held in trust correctly by showing the actual additions and reductions. However, the transaction was recorded incorrectly by recording an addition of \$1,560,048, and a reduction of \$3,120,096. The office should have recorded an addition of \$362,885 and a reduction of \$1,922,933.
- ▶ We reviewed the balances on the financial schedules for both fiscal years 2004-05 and 2005-06, and compared them to the office's records, which show individual insurance company deposits. The beginning balance amount in fiscal year 2004-05 does not agree to the office's supporting information. The beginning and ending balances are overstated by \$183,149 in both fiscal years 2004-05 and 2005-06.

During the previous audit there were errors in beginning and ending balances of property held in trust in the Agency Fund. Office personnel thought these errors had been corrected, and thought they had properly recorded the additions and reductions to property held in trust.

#### **Recommendation #7**

**We recommend the office properly record Agency Fund transactions in accordance with state law and policy.**



# **Independent Auditor's Report & Office Financial Schedules**

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# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
Tori Hunthausen,  
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:  
James Gillett  
Jim Pellegrini

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

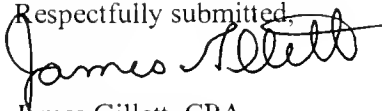
We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the State Auditor's Office for each of the fiscal years ended June 30, 2006, and 2005. The information contained in these financial schedules is the responsibility of the office's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the office's assets, liabilities, and cash flows.

The office did not record the liability for retirement contributions to the Montana Public Employees' Retirement Administration for fiscal year 2005-06. The error caused an understatement of \$15,714,451 in Local Assistance-From Other Income Sources on the Schedule of Expenditures & Transfers-Out. The ending fund balance in the General Fund, shown on the Schedule of Changes in Fund Balances & Property Held in Trust, is overstated by the same amount.

In our opinion, except for the effects of the matters discussed in the preceding paragraph, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances and property held in trust of the State Auditor's Office for each of the fiscal years ended June 30, 2006, and 2005, in conformity with the basis of accounting described in note 1.

Respectfully submitted,  
  
James Gillett, CPA  
Deputy Legislative Auditor

August 11, 2006



STATE AUDITOR'S OFFICE  
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Agency Fund
	\$ (15,126,641)	\$ 5,043,548	\$ 10,494	\$ 0	\$ 0
					\$ 11,701,781
FUND BALANCE: July 1, 2005					
PROPERTY HELD IN TRUST: July 1, 2005					
ADDITIONS					
Budgeted Revenues & Transfers-In	65,117,731	9,628,205	12,799,829		
Nonbudgeted Revenues & Transfers-In	2,234,230	107,953		684,399	
Direct Entries to Fund Balance	(50,869,513)	(337,390)	(10,494)	360,753	
Additions to Property Held in Trust					1,560,048
Total Additions	16,482,448	9,398,768	12,789,335	1,045,152	1,560,048
REDUCTIONS					
Budgeted Expenditures & Transfers-Out	2,130,962	5,481,556	12,799,829	678,622	
Nonbudgeted Expenditures & Transfers-Out		3,977,167			
Prior Year Expenditures & Transfers-Out Adjustments		1,228			
Reductions in Property Held in Trust					3,120,096
Total Reductions	2,130,962	9,459,951	12,799,829	678,622	3,120,096
FUND BALANCE: June 30, 2006	\$ (775,155)	\$ 4,982,365	\$ 0	\$ 366,530	\$ 0
PROPERTY HELD IN TRUST: June 30, 2006					\$ 10,141,733

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

STATE AUDITOR'S OFFICE  
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FUND BALANCE: July 1, 2004	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Agency Fund
PROPERTY HELD IN TRUST: July 1, 2004	\$ (15,357,175)	\$ 4,375,769	\$ 75,130	\$ 0
ADDITIONS				\$ 11,273,068
Budgeted Revenues & Transfers-In	62,656,094	6,796,190	12,431,155	
Nonbudgeted Revenues & Transfers-In	2,110,291	24,938		
Prior Year Revenues & Transfers-In Adjustments	(22,806)			
Direct Entries to Fund Balance	(47,798,710)	662,732		
Additions to Property Held in Trust				428,713
Total Additions	16,944,869	7,483,860	12,431,155	428,713
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	16,551,186	4,675,167	12,431,155	
Nonbudgeted Expenditures & Transfers-Out		2,119,839		
Prior Year Expenditures & Transfers-Out Adjustments	163,149	21,075	64,636	
Total Reductions	16,714,335	6,816,081	12,495,791	
FUND BALANCE: June 30, 2005	\$ (15,126,641)	\$ 5,043,548	\$ 10,494	\$ 0
PROPERTY HELD IN TRUST: June 30, 2005				\$ 11,701,781

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

STATE AUDITOR'S OFFICE  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Total
Licenses and Permits	\$ 5,783,227	\$ 8,906,444			\$ 14,689,671
Taxes	58,595,892	17		\$ 682,959	58,595,909
Charges for Services				1,440	682,959
Investment Earnings	733,468				733,468
Fines, Forfeits and Settlements	5,374	107,936			113,310
Miscellaneous	2,234,000	721,761			2,955,761
Other Financing Sources			\$ 12,799,829		12,799,829
Federal	67,351,961	9,736,158		684,399	90,572,347
Total Revenues & Transfers-In					
Less: Nonbudgeted Revenues & Transfers-In	2,234,230	107,953		684,399	3,026,582
Actual Budgeted Revenues & Transfers-In	65,117,731	9,628,205		0	87,545,765
Estimated Revenues & Transfers-In	69,635,416	10,643,341	12,799,829		92,828,757
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (4,517,685)	\$ (1,015,136)	\$ 249,829	\$ 0	\$ (5,282,992)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS					
Licenses and Permits	\$ 1,178,820	\$ 1,134,478			\$ 2,313,298
Taxes	(2,984,614)				(2,984,614)
Fines, Forfeits and Settlements	566,176				566,176
Miscellaneous	5,283				5,283
Other Financing Sources	(3,283,350)	(2,149,614)			(5,432,964)
Federal			\$ 249,829		249,829
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (4,517,685)	\$ (1,015,136)	\$ 249,829	\$ 0	\$ (5,282,992)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

STATE AUDITOR'S OFFICE  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Total
Licenses and Permits	\$ 5,387,785	\$ 6,796,190		\$ 12,183,975
Taxes	57,090,451			57,090,451
Fines, Forfeits and Settlements	155,301			155,301
Miscellaneous	42	24,938		24,980
Other Financing Sources	2,110,000			2,110,000
Federal			\$ 12,431,155	12,431,155
Total Revenues & Transfers-In	<u>64,743,579</u>	<u>6,821,128</u>	<u>12,431,155</u>	<u>83,995,862</u>
Less: Nonbudgeted Revenues & Transfers-In				
Prior Year Revenues & Transfers-In Adjustments	2,110,291	24,938		2,135,229
	(22,806)			(22,806)
Actual Budgeted Revenues & Transfers-In	<u>62,656,094</u>	<u>6,796,190</u>	<u>12,431,155</u>	<u>81,883,439</u>
Estimated Revenues & Transfers-In	63,769,000	6,689,787	13,778,600	84,237,387
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (1,112,906)</u>	<u>\$ 106,403</u>	<u>\$ (1,347,445)</u>	<u>\$ (2,353,948)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Licenses and Permits	\$ 137,591	\$ 106,403		\$ 243,994
Taxes	(1,350,840)			(1,350,840)
Investment Earnings				
Fines, Forfeits and Settlements			\$ (28,600)	(28,600)
Miscellaneous	100,301			100,301
	42			42
Federal			(1,318,845)	(1,318,845)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (1,112,906)</u>	<u>\$ 106,403</u>	<u>\$ (1,347,445)</u>	<u>\$ (2,353,948)</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

STATE AUDITOR'S OFFICE  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Central Management	Forest Reserve To Counties	Insurance	Local Assistance To Counties	Securities	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT						
Personal Services						
Salaries	\$ 346,883		\$ 1,874,831		\$ 394,083	\$ 2,615,797
Employee Benefits	98,427		579,842		127,207	805,476
Total	<u>445,310</u>		<u>2,454,673</u>		<u>521,290</u>	<u>3,421,273</u>
Operating Expenses						
Other Services	15,405		356,708		78,347	450,460
Supplies & Materials	16,584		132,719		38,722	188,025
Communications	10,148		90,567		19,396	120,111
Travel	4,276		63,663		15,152	83,091
Rent	26,959		154,121		37,000	218,080
Utilities			39			39
Repair & Maintenance	311		1,791		413	2,515
Other Expenses	6,273		2,366,542		2,471	2,375,286
Total	<u>79,956</u>		<u>3,166,150</u>		<u>191,501</u>	<u>3,437,607</u>
Local Assistance						
From Federal Sources		\$ 12,799,829				12,799,829
From Other Income Sources				\$ 2,130,962		2,130,962
Total		<u>12,799,829</u>		<u>2,130,962</u>		<u>14,930,791</u>
Grants						
From State Sources			573,215			573,215
Total			<u>573,215</u>			<u>573,215</u>
Benefits & Claims						
From State Sources			472,478			472,478
Total			<u>472,478</u>			<u>472,478</u>
Transfers						
Accounting Entity Transfers					2,234,000	2,234,000
Total					<u>2,234,000</u>	<u>2,234,000</u>
Total Expenditures & Transfers-Out	\$ <u>525,266</u>	\$ <u>12,799,829</u>	\$ <u>6,666,516</u>	\$ <u>2,130,962</u>	\$ <u>2,946,791</u>	\$ <u>25,069,364</u>
EXPENDITURES & TRANSFERS-OUT BY FUND						
General Fund				\$ 2,130,962		\$ 2,130,962
State Special Revenue Fund	\$ 525,266		\$ 5,987,894		\$ 2,946,791	9,459,951
Federal Special Revenue Fund		\$ 12,799,829				12,799,829
Enterprise Fund			678,622			678,622
Total Expenditures & Transfers-Out	<u>525,266</u>	<u>12,799,829</u>	<u>6,666,516</u>	<u>2,130,962</u>	<u>2,946,791</u>	<u>25,069,364</u>
Less: Nonbudgeted Expenditures & Transfers-Out	(128)		2,343,329		2,312,588	4,655,789
Prior Year Expenditures & Transfers-Out Adjustments			1,228			1,228
Actual Budgeted Expenditures & Transfers-Out	<u>525,394</u>	<u>12,799,829</u>	<u>4,321,959</u>	<u>2,130,962</u>	<u>634,203</u>	<u>20,412,347</u>
Budget Authority	600,108	12,800,000	6,723,118	17,938,775	768,329	38,830,330
Unspent Budget Authority	<u>\$ 74,714</u>	<u>\$ 171</u>	<u>\$ 2,401,159</u>	<u>\$ 15,807,813</u>	<u>\$ 134,126</u>	<u>\$ 18,417,983</u>
UNSPENT BUDGET AUTHORITY BY FUND						
General Fund				\$ 15,807,813		\$ 15,807,813
State Special Revenue Fund	\$ 74,714		\$ 2,401,159		\$ 134,126	2,609,999
Federal Special Revenue Fund		\$ 171				171
Unspent Budget Authority	<u>\$ 74,714</u>	<u>\$ 171</u>	<u>\$ 2,401,159</u>	<u>\$ 15,807,813</u>	<u>\$ 134,126</u>	<u>\$ 18,417,983</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.  
Additional information is provided in the notes to the financial schedules beginning on page A-11.





STATE AUDITOR'S OFFICE  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Central Management	Forest Reserve to Counties	Insurance	Local Assistance to Counties	Securities	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT						
Personal Services						
Salaries	\$ 349,530		\$ 1,691,145		\$ 406,404	\$ 2,447,079
Employee Benefits	98,498		528,534		128,542	755,574
Total	<u>448,028</u>		<u>2,219,679</u>		<u>534,946</u>	<u>3,202,653</u>
Operating Expenses						
Other Services	36,780		218,230		42,403	297,413
Supplies & Materials	10,038		82,680		13,340	106,058
Communications	10,441		77,076		15,019	102,536
Travel	5,464		60,872		16,056	82,392
Rent	26,556		147,293		38,537	212,386
Repair & Maintenance	28		143		38	209
Other Expenses	3,913		32,637		3,152	39,702
Total	<u>93,220</u>		<u>618,931</u>		<u>128,545</u>	<u>840,696</u>
Local Assistance						
From Federal Sources		\$ 12,495,791				12,495,791
From Other Income Sources				\$ 16,714,335		16,714,335
Total		<u>12,495,791</u>		<u>16,714,335</u>		<u>29,210,126</u>
Grants						
From Federal Sources			662,732			662,732
Total			<u>662,732</u>			<u>662,732</u>
Transfers						
Accounting Entity Transfers					2,110,000	2,110,000
Total					<u>2,110,000</u>	<u>2,110,000</u>
Total Expenditures & Transfers-Out	\$ <u>541,248</u>	\$ <u>12,495,791</u>	\$ <u>3,501,342</u>	\$ <u>16,714,335</u>	\$ <u>2,773,491</u>	\$ <u>36,026,207</u>
EXPENDITURES & TRANSFERS-OUT BY FUND						
General Fund				\$ 16,714,335		\$ 16,714,335
State Special Revenue Fund	\$ 541,248		\$ 3,501,342		\$ 2,773,491	6,816,081
Federal Special Revenue Fund		\$ 12,495,791				12,495,791
Total Expenditures & Transfers-Out	<u>541,248</u>	<u>12,495,791</u>	<u>3,501,342</u>	<u>16,714,335</u>	<u>2,773,491</u>	<u>36,026,207</u>
Less: Nonbudgeted Expenditures & Transfers-Out			4,618		2,115,221	2,119,839
Prior Year Expenditures & Transfers-Out Adjustments	2,394	64,636	15,501	163,149	3,180	248,860
Actual Budgeted Expenditures & Transfers-Out	<u>538,854</u>	<u>12,431,155</u>	<u>3,481,223</u>	<u>16,551,186</u>	<u>655,090</u>	<u>33,657,508</u>
Budget Authority	<u>552,873</u>	<u>13,750,000</u>	<u>3,736,542</u>	<u>17,002,655</u>	<u>738,120</u>	<u>35,780,190</u>
Unspent Budget Authority	\$ <u>14,019</u>	\$ <u>1,318,845</u>	\$ <u>255,319</u>	\$ <u>451,469</u>	\$ <u>83,030</u>	\$ <u>2,122,682</u>
UNSPENT BUDGET AUTHORITY BY FUND						
General Fund				\$ 451,469	\$ 420	\$ 451,889
State Special Revenue Fund	\$ 14,019		\$ 255,319		82,610	351,948
Federal Special Revenue Fund		\$ 1,318,845				1,318,845
Unspent Budget Authority	\$ <u>14,019</u>	\$ <u>1,318,845</u>	\$ <u>255,319</u>	\$ <u>451,469</u>	\$ <u>83,030</u>	\$ <u>2,122,682</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.



# State Auditor's Office

## Notes to the Financial Schedules

### For the Two Fiscal Years Ended June 30, 2006

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#### 1. **Summary of Significant Accounting Policies**

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##### **Basis of Accounting**

The office uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, and Federal Special Revenue Funds). In applying the modified accrual basis, the office records:

Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.

Expenditures for valid obligations when the office incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the office to record the cost of employees' annual leave and sick leave when used or paid.

The office uses accrual basis accounting for its Proprietary (Enterprise Fund) and Fiduciary (Agency Fund) fund categories. Under the accrual basis, as defined by state accounting policy, the office records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred, when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the office receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

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##### **Basis of Presentation**

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared

## Notes to the Financial Schedules

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from the transactions posted to the state's accounting system without adjustment.

The office uses the following funds:

### **Governmental Fund Category**

**General Fund** – to account for all financial resources except those required to be accounted for in another fund. General Fund includes operations for securities, premium insurance taxes, and transfers of funds to the Montana Public Employees' Retirement Administration.

**State Special Revenue Fund** – to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. Office State Special Revenue Funds include Insurance and Security Division activity such as the securities and insurance examination fees, insurance industry continuing education programs, and securities portfolio registrations.

**Federal Special Revenue Fund** – to account for federal funds received by the office. Office Federal Special Revenue Funds include the receipt and disbursement of federal forest reserve funds to Montana counties.

### **Proprietary Fund Category**

**Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprise, where the Legislature intends that the office finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes of similar revenues. The office Enterprise Fund includes activity related to an advisory surplus lines organization.

### **Fiduciary Fund Category**

**Agency Fund** – to account for resources held by the state in a custodial capacity. The office's Agency Fund accounts for cash and

securities required to be held in trust by the office for insurance companies licensed in Montana.

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### 2. General Fund Balance

The negative fund balances in the General Fund do not indicate overspent appropriation authority. Each agency has authority to pay obligations from the statewide General Fund within its appropriation limits. Each agency expends cash or other assets from the statewide fund when it pays General Fund obligations. The office's outstanding liabilities exceed the assets the office has placed in the fund, resulting in negative ending General Fund balances for each of the two fiscal years ended June 30, 2006, and 2005.

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### 3. Direct Entries to Fund Balance

Direct entries to fund balance in the General and State Special Revenue funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. The material portion of direct entries to fund balance in the General Fund is attributed to Premium Insurance Taxes.

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### 4. Unspent Budget Authority

On the Schedule of Expenditures & Transfers-Out for fiscal year 2005-06, there is approximately \$15.8 million in unspent budget authority in the General Fund for Local Assistance to Counties. The transfer of funds to the Montana Public Employees' Retirement Administration was not recorded, which understates expenditures by approximately \$15.7 million.

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### 5. Enterprise Fund

The Surplus Lines Advisory Organization is a separate, legal entity, which operates under the general supervision of the State Auditor's Office. Prior to fiscal year 2005-06, this activity was not recorded on the state's accounting system; this was addressed in a recommendation in our prior audit report, which the office implemented in fiscal year 2005-06.



# **State Auditor's Office Response**

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# MONTANA STATE AUDITOR

JOHN MORRISON  
STATE AUDITOR



COMMISSIONER OF INSURANCE  
COMMISSIONER OF SECURITIES

October 18, 2006

Mr. Scott Seacat  
Legislative Auditor  
Legislative Audit Division  
P.O. Box 201705  
Helena, MT 59620-1705

RECEIVED  
OCT 18 2006  
LEGISLATIVE AUDIT DIV.

Dear Mr. Seacat:

We appreciate the opportunity to review and reply to the Financial-Compliance Audit for the two fiscal years ending June 30, 2006. Our responses to the seven recommendations included in the report are as follows:

Recommendation #1:

We recommend the office allow only eligible small employers to participate in the Insure Montana Program, as required by state law.

Agency Response:

We concur with the recommendation that only eligible small employers participate in the Insure Montana health insurance program. Administrative rules adopted by the State Auditor's office clarified ambiguities in the law as passed during the 2005 Legislative Session, however, the State Auditor may seek additional legislative changes to Title 33, Chpt. 22, part 20, MCA to ensure that a small business health insurance purchasing pool fully complies with the Small Employer Health Insurance Availability Act (Title 33, Chpt. 22, part 18, MCA).

Recommendation #2:

We recommend the office pay compensation to the Insure Montana Program board members, as required by state law.

Agency Response:

We concur with the recommendation. The two local Insure Montana board members have been compensated as required by section 2-15-124(7), MCA. Insure Montana staff has reminded board members that they are entitled to compensation and travel expenses and that if a board member wishes to waive that right, the board member must sign a statement to that effect.

Recommendation #3:

We recommend the office record the liability for retirement contributions to the Montana Public Employees' Retirement Administration, as required by state law.

Agency Response:

We concur. State Auditor's Office staff caught this error the day after the books were closed. We notified the Department of Administration, Accounting, the Office of Budget Program and Planning, the Legislative Auditor's, and the Legislative Fiscal Division concerning this error. The correcting entries have been completed and we have calendared this transaction on the State Outlook system as a reminder for next year. We will implement a new procedure at the recommendation of the Legislative Auditor's Office to book these expenditures earlier in the fiscal year.

Recommendation #4:

We recommend the office comply with state law and record the genetics program fee in the State Special Revenue Fund.

Agency Response:

We concur. The \$16,436.00 has been transferred to the Genetics program. As genetic funds are received by the State Auditor's Office, these funds will be transferred to the Genetics program on a monthly basis.

Recommendation #5:

We recommend the office comply with state law pertaining to the distribution and investment of federal forest reserve funds.

Agency Response:

We concur. The payment for Sanders County was 3 days late. We have paid the interest due to Sanders County. We have set up procedures to insure that the appropriate authority exist for future payments to the counties.

Mr. Scott Seacat  
Page 3  
October 18, 2006

Recommendation #6:

We recommend the office record examination revenues and Premium Assistance Plan expenditures in accordance with state law and policy.

Agency Response:

We concur. We have worked with the Department of Administration, Accounting, to ensure that we are recording the examination revenues and Premium Assistance Plan expenditures in accordance with state law and policy.

Recommendation #7:

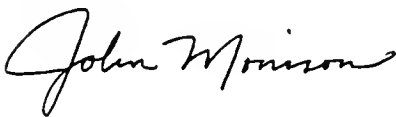
We recommend the office properly record Agency Fund transactions in accordance with state law and policy.

Agency Response:

We concur. We are reconciling these accounts to correct the discrepancies. We will work with the Legislative Auditor's Office to ensure that our new approach to recording Agency Fund transactions is appropriate.

I appreciate the professionalism and hard work of the staff who participated in this audit. Thank you again for the chance to review and respond to the recommendations.

Sincerely,

A handwritten signature in black ink that reads "John Morrison". The signature is written in a cursive style with a large, looping "J" and "M".

John Morrison  
State Auditor

JM/sa





